

MARKETBEAT

Cleveland, OH

Office Q1 2019



CLEVELAND OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Cleveland Employment	1,065k	1,080k	▲
Cleveland Unemployment	5.0%	5.1%	▲
U.S. Unemployment	4.1%	3.8%	▼

Numbers above are quarterly averages

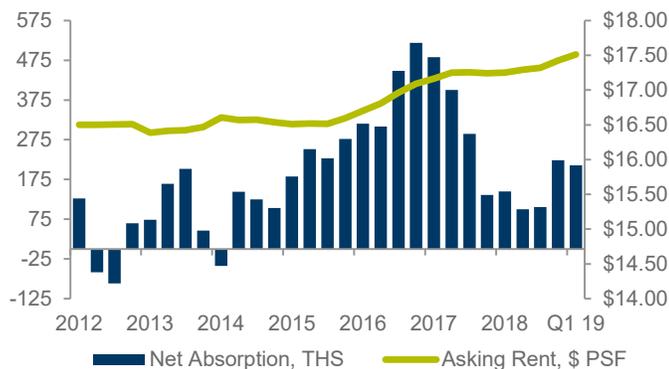
Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	8.5%	6.7%	▼
YTD Net Absorption (sf)	652k	238k	▼
Under Construction (sf)	1.4M	389k	▼
Average Asking Rent*	\$17.25	\$17.59	▲

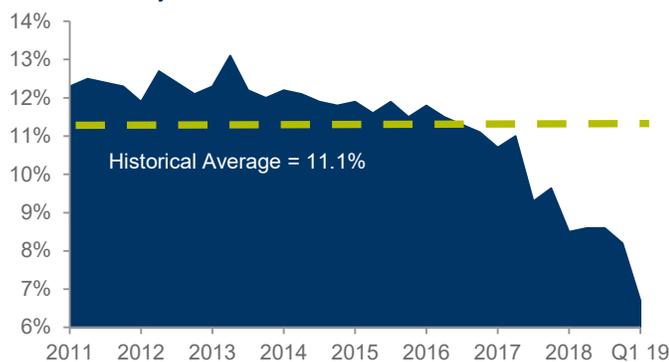
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economic

Economic activity in Northeast Ohio grew at a modest pace in the first quarter of 2019. Hiring was up across all major goods producers and service providers. Wage growth was also moderate across business sectors. The labor shortage that previously stunted economic growth for producers eased this quarter. Consumer confidence remained high throughout the region, and overall market conditions for Northeast Ohio were off to a strong start for 2019.

Market Overview

The first quarter of 2019 was headlined by prominent sales in the suburban markets. The top sale number for the quarter belonged to PNC's operations center at 4100 W 150th St. The just under 388,000 square foot (sf) property sold to Oaktree Capital Management out of Los Angeles for \$51.6 Million or \$133 per square foot (psf). Another notable transfer on the east side was PNC's property at 23000 Millcreek Blvd in Highland Hills, which sold to Time Equities, fetching a price of \$7.5 Million (\$46 psf). PNC shifted much of its suburban workforce to its CBD headquarters on E 9th Street. Rental rates in both the CBD and the suburban markets continued to climb at a modest pace, and vacancy rates continue to drop. New Class A mixed-use development projects in the CBD are expected to add the needed supply to the market with deliveries scheduled for early 2022. Stark Enterprises' NuCLEus project at 400,000 sf and Harbor Bay's Market Plaza development at 150,000 sf are the most prominent developments.

Outlook

Look for more of the same for the Northeast Ohio office market as market trends such as modestly increasing rent, modestly decreasing vacancy rates, and a tightening of the market will continue until new office space supply is added to the market. Expect suburban markets to see less growth in rental rates and stable vacancy rates than in the CBD, with downtown Class A office space and creative loft-style office space leading the pack in terms of occupancy rates and rising rents. There is a strong pressure on office landlords to offer fully amenitize buildings to attract new and retain existing tenants. Expect co-working spaces to take off in the next two to four quarters, as small-scale co-working concepts have excelled throughout northeast Ohio, encouraging larger co-working concepts throughout the Midwest to focus on Cleveland's relatively untapped co-working market.

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SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR DIRECT NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	31,721,218	2,977,594	23,474	9.4%	-92,176	-92,176	25,972	0	\$20.13	\$22.54
Akron	27,716,512	1,437,156	19,946	5.1%	49,960	49,960	50,205	62,500	\$15.27	\$19.52
Chagrin, East & Lander	13,984,913	858,700	13,950	6.2%	-39,854	-39,854	34,447	17,613	\$21.72	\$26.48
Stark County	12,348,738	607,881	13,648	5.0%	55,472	55,472	10,994	38,000	\$14.49	\$17.02
Rockside & South	9,712,466	1,232,665	12,384	10.9%	-138,957	-138,957	62,025	13,200	\$18.59	\$21.01
West	9,013,001	587,347	13,313	6.7%	-17,945	-17,945	32,568	114,709	\$15.83	\$18.26
Southwest	8,860,343	617,294	65,047	7.7%	264,892	264,892	29,818	0	\$15.68	\$21.23
Northeast & Lake County	8,946,624	611,839	0	6.8%	1,868	1,868	12,195	50,000	\$15.53	\$26.00
Midtown	7,553,800	306,608	16,602	4.3%	18,437	18,437	13,827	0	\$19.04	\$21.42
Lorain County	5,816,482	421,183	0	7.2%	20,335	20,335	2,571	0	\$12.59	n/a
Fairlawn & Montrose	4,165,735	392,551	1,804	9.5%	-14,815	-14,815	30,860	42,742	\$17.13	\$21.33
Portage & Geauga	4,188,756	110,474	0	2.6%	82,199	82,199	0	0	\$17.07	\$23.77
Southeast	3,923,474	181,205	5,209	4.8%	37,343	37,343	20,803	0	\$18.65	\$16.83
Medina	3,155,189	158,923	0	5.0%	12,179	12,179	8,231	50,800	\$15.11	\$11.87
CLEVELAND TOTALS	151,107,251	9,894,147	185,377	6.7%	238,938	238,938	334,516	389,564	\$17.59	\$22.15

*Rental rates reflect gross asking \$psf/year

	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR DIRECT NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	29,989,304	2,586,152	34,298	8.7%	-104,104	-104,104	71,249	131,742	\$22.35	\$22.15
Class B	77,065,917	5,572,116	52,817	7.8%	252,707	252,707	178,242	257,822	\$16.74	\$16.75
Class C	44,052,030	1,735,879	98,262	4.2%	90,335	90,335	85,025	0	\$14.59	\$14.67

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1001 Lakeside Avenue	45,455	GSA	New	CBD
2 Summit Park	30,000	Covia	New	South
629 Euclid Avenue	28,800	Stark Enterprises	Sublease	CBD
600 Superior	28,000	Brouse McDowell	New	CBD
3333 Richmond Road	26,000	Insight 2 Profit	New	East

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
4100 West 150 th Street, Cleveland, OH	387,636	PNC / Oaktree Capital Management	\$51,600,000 / \$133	West
23000 Millcreek Boulevard, Highland Hills, OH	163,018	PNC / Time Equities	\$7,550,000 / \$46	Southwest
3800 Park East Drive, Beachwood, OH	140,015	Welltower Inc / Chad Kertesz	\$4,871,659 / \$34	East
777 Lena Drive, Aurora, OH	113,800	New Vista / Piping Rock	\$3,600,000 / \$31	East

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